

Message Text

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ACTION EA-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-05 H-01 INR-07
L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15
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AGRE-00 STR-05 OES-07 /092 W
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R 050628Z JAN 78
FM USLO PEKING
TO SECSTATE WASHDC 9548
INFO AMCONSUL HONG KONG

C O N F I D E N T I A L SECTION 1 OF 2 PEKING 0034

HONG KONG PLEASE PASS AMB WOODCOCK

E.O. 11652: XGDS-3
TAGS: ECON EFIN EEW T CH US ENRG
SUBJ: SENATOR KENNEDY'S MEETING WITH FOREIGN TRADE MINISTER
LI CHIANG

1. THE FOLLOWING IS A NEAR VERBATIN TRANSCRIPT OF
SENATOR KENNEDY'S CALL ON MINISTER OF FOREIGN TRADE
CHIANG JANUARY 3, 1978, FROM 3:00 - 4:00 PM.

2. AFTER SOME PLEASANTRIES MINISTER LI CHIANG WELCOMED SENATOR
KENNEDY AND SENATOR KENNEDY INITIATED THE FOLLOWING CONVERSATION:

KENNEDY: I HAVE SPECIAL RESPONSIBILITIES IN THE
FIELDS OF TECHNOLOGY AND ADVISING CONGRESS AS TO
WHERE WE ARE GOING IN TECHNOLOGY AND ADVISING THE
SENATE WHICH PROGRAMS WE SHOULD SUPPORT IN THE FIELDS
OF TECHNOLOGY. I AM MINDFUL THAT THERE IS A
CHINESE PETROLEUM DELEGATION NOW IN THE UNITED
STATES LOOKING INTO OIL TECHNOLOGY. I AM ALSO
MINDFUL OF THE POSITION OF YOUR GOVERNMENT IN TERMS
OF ACQUIRING TECHNOLOGY FROM THE WEST. WHAT DO YOU
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EXPECT, IN THE FIELD OF OIL TECHNOLOGY, TO COME
FROM THE VISIT OF YOUR PETROLEUM DELEGATION TO THE
UNITED STATES? WHAT DOES THE VISIT MEAN IN TERMS OF YOUR
FUTURE NEEDS?
LI: FIRST OF ALL, THEY ARE ON A STUDY MISSION TO
MAKE AN INVESTIGATION AND TO ACQUIRE KNOWLEDGE.
THEY WOULD LIKE TO KNOW WHAT NEW TECHNOLOGY AND

EQUIPMENT YOU HAVE. WE HAVE ALSO SENT SIMILAR MISSIONS TO OTHER COUNTRIES WHO HAVE EXPERTISE IN OFFSHORE DRILLING. THERE ARE LOTS OF THINGS WE MAY ADOPT. WE MAY ALSO PURCHASE PATENTS AND IMPORT TECHNOLOGY AND KNOWHOW. IN THE MEANTIME, WE ARE IMPORTING EQUIPMENT. (RECENTLY, I HAVE JUST COME BACK FROM A TRIP TO EUROPE. THE WEATHER THERE WAS VERY BAD. THAT IS NO GOOD FOR A MAN OF MY AGE.) WE CONSIDER AND ALSO ACKNOWLEDGE THAT YOU HAVE MUCH EXPERIENCE IN OFFSHORE DRILLING AND IN NEW METHODS SO OUR DELEGATION HAS THIS PURPOSE. BUT, WE ARE NOT ONLY INTERESTED IN THE FIELD OF OIL. WE MAY ALSO CONSIDER OTHER FIELDS. IN SEVERAL SPHERES WE HAVE ALREADY MADE PROGRESS WITH OTHER COUNTRIES. WE WOULD LIKE TO ADOPT THE EXPERIENCE OF OTHER COUNTRIES IN ORDER TO SHORTEN THE TIME FOR OUR OWN CONSTRUCTION. KENNEDY: WE HAVE MADE MUCH PROGRESS IN OIL EXPLORATION. WHAT IS THE POSITION OF YOUR GOVERNMENT IN THE EXPORT OF YOUR OIL RESOURCES? LI: WE SHALL EXPORT, BUT IT IS DIFFICULT TO SAY WHAT THE QUANTITY OF OUR OIL EXPORTS WILL BE. WE HAVE A BIG COUNTRY AND WE HAVE A NEED FOR OIL, BUT WE DO NOT USE AS MUCH AS YOU. WE DO NOT HAVE AS MANY CARS. OUR MOST RELIABLE RESOURCE IS COAL. KENNEDY: I KNOW YOU HAVE GREAT RESOURCES OF COAL. THE US HAS ENOUGH COAL FOR 850 YEARS INCLUDING A TWO

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PERCENT INCREASE IN USE PER ANNUM, BUT THERE ARE COMPLICATIONS IN DEVELOPING, DIGGING AND MOVING THE COAL. YOUR OBVIOUS INTERESTS IN EXPORTING OIL OR GAS WILL HAVE IMPORTANT IMPLICATIONS IN OUR GLOBAL APPROACH TO THE SOVIET UNION, BECAUSE THE SOVIET UNION HAS THREATENED THE PASSAGE OF OIL AND GAS WITH, FOR EXAMPLE, THE ESTABLISHMENT OF THEIR BASE AT BERBERA IN THE INDIAN OCEAN. WHEN WOULD YOUR OIL AND GAS BE AVAILABLE TO THE INTERNATIONAL MARKET? LI: WE EXPORT SOME QUANTITY NOW -- ABOUT 10 MILLION TONS OF OIL. AFTER THE INTERRUPTION OF THE GANG OF FOUR, AND UNDER THE LEADERSHIP OF CHAIRMAN HUA, AND IN FOLLOWING THE FOUR MODERNIZATIONS, EXPLOITING OUR ENERGY IS BASED ON THE FOLLOWING: THE FIRST NEED IS POWER -- ELECTRIC POWER. WE MAINLY RELY ON COAL, THEN OUR HYDROPOWER. IT IS NOT POSSIBLE TO RELY IN A LARGE WAY ON OIL. WE HAVE ALREADY CONSUMED LOTS OF OIL TO GENERATE ELECTRICITY. WE WILL TRY TO CHANGE THIS. WE WOULD LIKE TO EXPORT MORE OIL TO IMPORT OTHER THINGS. IN THE MEANTIME, WE WOULD ALSO LIKE TO EXPORT MORE COAL. WE HAVE DIFFERENT TYPES OF COAL. WE HAVE DIFFICULTY IN THE

TRANSPORTATION OF COAL. IN THE FUTURE WE WILL
BUILD OUR POWER STATIONS AT THE ENTRANCE OF THE COAL
PITS. WE WOULD LIKE TO DEVELOP A DIFFERENT TECHNIQUE
SO AS TO GASSIFY COAL FOR PRODUCTION. IN THE FUTURE
WE WILL USE MORE COAL.

KENNEDY: IN OUR REFINERIES WE NOW HAVE NEW AND MODERN
TECHNIQUES. WILL YOUR GROUP LOOK AT THEM ALSO?

LI: THEY WILL HAVE A VERY COMPREHENSIVE VISIT TO YOUR COUNTRY.

WE PRODUCE SOME STEELPLAT PIPES OF DIFFERENT CALIBERS.

KENNEDY: WHAT ARRANGEMENTS COULD BE MADE FOR THE
PURCHASE IF THE US HAD THE BEST MOST MODERN AND MOST
REASONABLE PRICE GIVEN YOUR COUNTRY'S LONGSTANDING OPPOSITION
TO JOINT VENTURES AND CREDITS? ARE THERE NEW WAYS TO DEVELOP
THE TRANSFER OF THIS TECHNOLOGY FOR MODERNIZATION?
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LI: THERE IS ONE WAY. WE PAY IN CASH. THE OTHER
WAY IS DEFERRED PAYMENTS. AS FOR DEFERRED PAYMENTS,
WE HAVE HAD A MAXIMUM PERIOD OF UP TO FIVE YEARS
BEFORE. NOW MANY COUNTRIES HAVE MADE PROPOSALS TO
US AND WE MAY PROLONG THE TERMS, BUT WE DON'T WANT
TO OWE TOO MUCH DEBT. WE WANT TO PAY OUR DEBTS AND
IMPORT SOME EACH YEAR AND THEN INCUR NEW DEBTS. AS
FOR OTHER WAYS, WE HAVE NOT CONSIDERED THEM YET, BUT
YOU KNOW WE HAVE HAD NO DIFFICULTY IN PAYMENTS. IT
IS 29 YEARS SINCE THE FOUNDATION OF THE PRC. WE
ARE VERY CAUTIOUS IN THIS FIELD AND UP TO NOW WE
HAVE NEVER FAILED IN PAYMENT. OUR ECONOMY IS
DEVELOPING AND WE WOULD LIKE TO PURCHASE MORE SO WE
MAY ACCEPT LONGER TERMS. UNDER THE LEADERSHIP OF CHAIRMAN
HUA OUR PRODUCTION IS INCREASING. IN 197 WE SHALL ATTAIN A
HIGHER PEAK. IN THIS SITUATION WE SHALL INCREASE OUR PURCHASE
POWER AS WELL AS OUR EXPORTS.

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FM USLO PEKING

TO SECSTATE WASHDC 9549

INFO AMCONSUL HONG KONG

C O N F I D E N T I A L SECTION 2 OF 2 PEKING 0034

KENNEDY: ARE YOU HOPEFUL ABOUT OIL RESERVES AND OIL FOR EXPORT?

LI: MAINLY WE RELY ON OUR OWN EFFORTS. TAKE THE TACHING OILFIELD FOR EXAMPLE. THE SOVIET UNION'S EXPERTS LEFT CHINA AND THAT IS WHY WE DISCOVERED AND EXPLOITED OIL IN TACHING. YOU CAN BE ASSURED THAT IF WE ADOPT ADVANCED EXPERIENCE FROM FOREIGN COUNTRIES, THIS CAN SPEED UP OUR CONSTRUCTION. THAT IS WHY WE WANT TO ADOPT OTHER'S EXPERIENCES.

KENNEDY: I UNDERSTAND SOME CONTRACTS HAVE BEEN SIGNED WITH EUROPEAN COUNTRIES WHICH SAY THAT PAYMENT FOR THE COMPANY CAN BE MADE IN OIL ON A SHARED BASIS.

LI: THIS IS NOT THE CASE IN CHINA.

KENNEDY: BUT IF TERMS OF THE CONTRACT WERE AGREEABLE WOULD CHINA BE INTERESTED?

LI: IT IS STILL UNDER STUDY. WE HAVE NOT SIGNED ANY CONTRACTS LIKE THIS YET.

KENNEDY: BUT YOU HAVE NOT DISMISSED SUCH A POSSIBILITY?

LI: IT IS JUST UNDER INVESTIGATION.

KENNEDY: ARE THERE OTHER AREAS OF TECHNOLOGY THAT YOU ARE INTERESTED IN? I KNOW THAT YOU ARE INTERESTED IN COMPUTERS. MY STATE OF MASSACHUSETTS BUILDS COMPUTERS AND I KNOW SOME OF THE BACKGROUND OF THE COMPUTER CASES. ARE YOU INTERESTED IN THIS TYPE OF TECHNOLOGY?
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LI: THE PROBLEM IS THAT SOMETIMES YOU DO NOT LIKE TO ISSUE EXPORT LICENSES TO US. WE HAVE RAISED THIS PROBLEM. OF COURSE, YOU HAVE ISSUED LICENSES FOR GENERAL BUT NOT FOR CERTAIN COMPUTERS AND CONTRACTS CANNOT BE SIGNED. THAT IS THE PROBLEM. WE RESPECT THE PATENT OF OTHER COUNTRIES AND WE PAY FOR THE PATENT CHARGES. SOMETIMES WE IMPORT COMPLETE PLANTS FROM OTHER COUNTRIES BUT WE PAY FOR THE US PATENT.

KENNEDY: LET ME ASK ABOUT THE TURNKEY PROPOSALS AND BUILDING FACTORIES IN CHINA. WHAT IS THE FUTURE OF THIS TYPE OF ARRANGEMENT IN FUTURE CONTRACTS WITH THE US?

LI: WE WANT TO DEVELOP BASIC ENERGY FIRST. THAT IS POWER PLANTS AND TRANSPORTATION. THE BUILDING OF A GREAT MANY COMPLETE PLANTS IS STILL UNDER STUDY AND INVESTIGATION. I CANNOT LET YOU KNOW NOW.

KENNEDY: CAN I MOVE TO THE QUESTION OF THE PURCHASE

OF GRAIN AND GRAIN PRODUCTS FROM THE US? I KNOW THERE WAS A PERIOD WHEN YOU PURCHASED A GREAT DEAL OF US GRAIN. WHAT ARE THE POSSIBILITIES OVER THE FUTURE YEARS?
LI: FOR GRAIN PRODUCTS WE SOMETIMES REGULATE VARIETIES. WE IMPORT WHEAT AND WE EXPORT RICE. WE NOW HAVE MORE IRRIGATION SYSTEMS AND WE PRODUCE MORE RICE AND OUR PEOPLE PREFER RICE, BUT THEY ALSO LIKE WHEAT. OUR WHEAT PRODUCTION IS SMALLER THAN YOURS. THERE IS NOT A VERY BIG GAP BECAUSE WE HAVE A BIG POPULATION. NEVERTHELESS, EVERY YEAR WE EXPORT RICE AND IMPORT WHEAT. THIS SITUATION WILL CONTINUE. WE PURCHASE FROM AUSTRALIA AND CANADA AND A LITTLE FROM ARGENTINA AND SOME FRENCH BUSINESSMEN EXPORT US GRAIN TO CHINA. THIS SITUATION WILL CONTINUE.
KENNEDY: WE ARE VERY INTERESTED IN THE SALE OF GRAIN PRODUCTS.
LI: IN THE FIRST PART OF LAST YEAR WE DISCUSSED THE SALE OF WHEAT WITH US BUSINESSMEN, BUT BECAUSE
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OF THE HIGH PRICE WE DIDN'T BUY. YOUR PRICE IS ALWAYS BASED ON THE CHICAGO COMMODITY MARKET'S PREMIUM PRICE. THERE WAS ALSO A QUESTION OF SMUT, BUT THIS CAN BE SOLVED THROUGH FUMIGATION.
KENNEDY: WHAT ARE THE IMPORTANT OTHER AREAS OF US TECHNOLOGY THAT THE PRC IS INTERESTED IN?
LI: IT IS HARD TO SAY. I AM NOT IN CHARGE OF INDUSTRY. I WILL ONLY KNOW WHEN I RECEIVE ORDERS FROM THEM, BUT GENERALLY SPEAKING WE WANT TO ABSORB ADVANCED EXPERIENCE IN ELECTRONICS, PETROCHEMICALS, MACHINERY AND METALLURGY.
KENNEDY: WHAT IS THE TEST OR CRITERIA OF WHERE PURCHASES WILL BE MADE?
LI: FIRST IT IS WHETHER THE ITEM IS COMPETITIVE OR NOT ON THREE COUNTS. THAT IS: (A) LOW IN PRICE, (B) GOOD IN QUALITY AND (C) AVAILABLE FOR DELIVERY. OF COURSE, THERE IS STILL SOME DIFFERENCES BETWEEN OUR TWO COUNTRIES. WE HAVE NO DIPLOMATIC RELATIONS AND THERE ARE MANY THINGS FOR WHICH YOU DO NOT ISSUE EXPORT LICENSES. AS FAR AS OUR EXPORTS ARE CONCERNED THERE ARE HIGH TARIFFS ON CHINESE COMMODITIES BUT WE DON'T MIND. IF YOU DON'T WANT TO BUY FROM US WE EXPORT TO OTHER COUNTRIES. SO THE DIFFICULTY DOESN'T LIE ON OUR SIDE, IT IS UP TO YOU TO CONSIDER THIS MATTER.
KENNEDY: IF OUR PRODUCTS MEET PRICE, QUALITY AND AVAILABILITY CRITERIA, WILL THE FACT THAT NORMALIZATION IS NOT YET ACHIEVED BUT IS IN THE PROCESS OF BEING ACHIEVED HAVE AN EFFECT ON THE PURCHASES FROM THE US?
LI: OF COURSE, THAT CAN BE MINIMIZED BUT ANYWAY IT IS NOT AS GOOD AS GETTING THE FINAL SOLUTION. WE WON'T HAVE ANY BARRIERS ON OUR SIDE.

KENNEDY: I BELIEVE THE WHOLE PROCESS OF TRADE HELPS FOSTER
US MOVES TOWARD NORMALIZATION.

LI: WE WELCOME THIS COMMENT.

KENNEDY: I WONDER IF I CAN LEAVE SOME PROPOSALS OF
THE NATIONAL ACADEMY OF SCIENCE ON TECHNOLOGY IN A NUMBER OF
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AREAS WITH YOU. MAY I LEAVE THEM WITH THE MINISTER AND
PERHAPS THE LIAISON OFFICE CAN FOLLOW UP.

LI: THANK YOU. I WILL GIVE THEM TO THE DEPARTMENTS CONCERNED.

3. THIS IS AN UNCLEARED MESSAGE WHICH SHOULD BE PASSED TO
SENATOR KENNEDY FOR FURTHER CORRECTIONS AND CLARIFICATIONS.
DEAN

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Message Attributes

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